

I&M testimony on RPS June 17, 2007

1. Mr. Chairman, members of the Committee, I thank you for the opportunity to testify on the topic of renewable portfolio standards. My name is Greg Clark. I am the Vice President of Government Affairs for Michigan for Indiana Michigan Power or I&M.
 - a. I&M has 125,000 customers in Michigan. I&M owns and operates the Cook Nuclear Plant in St Joseph Michigan. Notably I&M offers some of the lowest electric rates in Michigan.
2. I&M is a subsidiary of American Electric Power, sometimes known as AEP. AEP has a total of 7 operating companies in 11 states. As such we have great experience over many states and regulatory systems.
3. AEP is a long standing supporter of renewable energy.
 - a. AEP companies own and operate 310 MWs of wind capacity in Texas. We have contracts to take power from 467 MWs of wind capacity in Texas and Oklahoma.
 - b. Recently AEP issued an RFP for 360 MWs of wind power from Midwest sources. One hundred of those MWs were requested on behalf of I&M. While bidding to satisfy this RFP was open to Michigan based suppliers, it is unclear if Michigan sourced projects will be able to satisfy the RFP.
 - c. In the meantime I&M has also begun the measurement of wind resources in East Central Indiana in preparation for the potential development of wind power facilities in that area. Measurements will go on for approximately 2 years.
 - d. Last, I&M owns and operates several small hydroelectric dams in Michigan that would be sufficient to meet a 1% RPS.
4. However, I&M is here to testify that it does not support a RPS mandate. Generally our industry is entering into an extremely challenging period with pressures to invest tremendous sums of money. Some of the great challenges we face are:

- a. Building needed new generating capacity, often in the face of an uncertain industry structure;
- b. Building out an improved transmission system to support reliability and provide a more efficient electricity industry;
- c. Investing billions in meeting new environmental standards for existing and new plants; and perhaps most daunting of all
- d. Investing to meet the challenges of potential Carbon emission regulation.

At the same time we will face tremendous pressure from our regulators, communities and customers to keep our prices reasonable to support our lifestyles and economic development.

- 5. There are many potential approaches to achieving these goals. Currently AEP has plans in the following eight areas;
 - a. One, deploy new Integrated Gasification Combined Cycle plants to utilize gasified coal to fire new generating units and continue our nation's ability to utilize this secure domestic source of energy;
 - b. Two, develop and deploy chilled ammonia technology to capture carbon emissions from existing plants. This will be done initially on a limited scale before it is finally deployed on a full plant scale;
 - c. Three, eventually develop Oxy Coal technology which would utilize a stream of pure oxygen to burn coal, leaving a stream of carbon that can be more easily captured for deposit;
 - d. Four, deploy an additional 1,000 MWs of Wind capacity;
 - e. Five, seek additional cheaper innovative offsets for our plants' emissions;

- f. Six, seek power plant efficiency improvements to increase the yield from power plants;
 - g. Seven, implement customer demand side management and energy conservation programs; and
 - h. Eight, invest in new 765 kV transmission lines to allow more efficient use of the power generated at plants and allow the harvesting of large amounts of renewable resources located at remote locations.
- 6. To achieve our goals our industry is going to have to invest billions of dollars in new facilities, new technologies and make many complex decisions regarding which combination of options is best to cleanly and reliably meet our customer's future needs.
- 7. In this environment our industry and individual companies are going to need a great deal of flexibility in choosing among the many options to meet our goals. In this environment government imposed mandates to utilize any of the various options are a hindrance not a help. In fact the more limiting and specific a mandate is, the greater the potential problems that could be created.
- 8. Turning to the idea of a Michigan renewable portfolio standard and the legislation before the committee, we have three general comments.
 - a. One an RPS is simply is not needed. The threat of carbon regulation is more than sufficient incentive for electric utilities to consider wind power and other renewables as effective means to meet tomorrow's clean energy needs. In fact we believe most electric utilities are already looking at renewable investments and other options to meet our future power and environmental demands.
 - b. Two a RPS would inevitably increase electricity prices for customers.
 - 1. If sellers of renewable power know a buyer has to buy they will have the opportunity to charge increased prices that are not cost based.

Examples of such activity include developer/profiteers who have purchased wind turbines and land options that can be sold at an enhanced profit when a utility is mandated to buy the power from such facilities. There is even an industry name for them, turbine or land hawks.

2. The problem of higher costs caused by mandates is made worse if RPS legislation requires the use of Michigan based renewable resources. The proposed RPS of 10% or more appears to be overly aggressive, given Michigan's strong manufacturing based electricity demands and its limited renewable resources. Forcing the use of Michigan resources will further increase prices due to imbalance of supply and demand.
3. Third, overall wind power will almost certainly cost more than is estimated in the 21st Century cost analysis. A recent study released by the Lawrence Berkeley National Laboratory demonstrates how estimated RPS costs have often been inaccurate. We believe a reexamination of the estimated RPS costs in light of the Berkeley Laboratory's analytical framework would be very useful to policymakers.

For instance the Berkeley Report notes the costs of new transmission and integration costs for wind power can be meaningful and should be included. These costs were altogether excluded from the 21st Century estimates.

- c. Three a stand alone RPS proposal ignores two critical feasibility issues that need to be resolved in order to meet its requirements.

1. The 21st Century Report notes that lack of access to transmission may make renewable sourced power impossible to access. This is particularly true in Michigan's Thumb Area where lack of transmission

has stopped the development of several hundred MWs of wind power. A key to this debate is how new transmission will be funded. You can't meet the requirements of a RPS in Michigan without addressing this issue.

2. Critically several communities have used their zoning authority to prevent wind farms from locating inside their boundaries. Unless this zoning authority is addressed, a RPS meant to aggressively harvest Michigan's renewable resources would fail as local communities stop developments. This would be counterproductive pitting state and local government mandates against each other.

d. Finally, we ask that if a RPS is considered by this committee it include two provisions that would be critical to I&M.

1. First, provide an off ramp for utilities in I&M's position. I&M is in the unusual position of not needing significant new capacity for several years and I&M has no air emissions from its Michigan sources. Thus I&M customers would get no needed capacity or environmental improvements from deploying renewable sourced power.

If I&M's customers were forced to pay for new renewable based facilities it would be tantamount to a fee or a tax on its customers to pay for new unneeded facilities.

Of course if the committee saw fit to include such off ramp language, competitive suppliers should receive the same treatment when competing for I&M's customers.

2. Second, utilities that operate as part of an integrated system in multiple states should be given the opportunity to utilize renewable resources from other states, especially other states

they operate in. This would provide utilities with a better opportunity to access more attractive sites, construct larger facilities that achieve customer savings from greater economies of scale.

Mandating a multi-state company like AEP to site renewable resources within a state's boundaries, instead of in larger, windier more economical sites would doom their customers to pay more than is necessary.

9. I would be pleased to answer any questions the committee may have.